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USTR AND ITC BUDGET AUTHORIZATIONS FOR FISCAL YEAR 1989

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

JUNE 22, 1988

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USTR AND ITC BUDGET AUTHORIZATIONS FOR FISCAL YEAR 1989

WEDNESDAY, JUNE 22, 1988

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:31 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Thomas A. Daschle (acting chairman of the subcommittee) presiding.

Present: Senators Daschle, Bentsen, Baucus, and Packwood.

[The press release announcing the hearing follows:]

FINANCE SUBCOMMITTEE TO HOLD HEARING ON USTR AND ITC BUDGET AUTHORIZATIONS

WASHINGTON, D.C.—Senator Spark Matsunaga (D., Hawaii), Chairman of the Subcommittee on International Trade, announced Tuesday that the Subcommittee will hold a hearing on authorization of the budgets for the Office of the United States Trade Representative and the United States International Trade Commission.

The hearing is scheduled for Wednesday, June 22, 1988, at 2:30 p.m., in room SD-215 of the Dirksen Senate Office Building.

Matsunaga said, "Because of the importance the Congress attaches to our international trade policy, the International Trade Subcommittee will want to scrutinize the budget proposals to ensure that adequate funding will be available to these key agencies."

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM THE STATE OF TEXAS, CHAIRMAN, SENATE COMMITTEE ON FINANCE

Senator BENTSEN. This hearing will come to order. Let me make just a comment or two here. Mr. Ambassador, Senator Daschle is going to be chairing the hearing, and I wanted to stop by just to express my interest and again my concern. Since I have to leave, I would like to ask you a question at this point; I will also have a number of other questions that I will leave and ask for replies to those in writing.

I understand that the USTR's submission to the Congress on the 1989 budget says that the trade legislation now pending before the Congress could result in a substantial increase in the workload of the USTR, depending on the outcome. I suppose you are referring to the Omnibus Trade Bill and saying that enactment would have a substantial impact on the resources of the agency?

I would like you to give me some idea of what you are envisioning insofar as additional resources for the USTR, should the bill be enacted.

Ambassador HOLMER. Right. Yes, Mr. Chairman, we share your desire and the desire of other members of the committee that the trade bill become law in 1988. We believe that most of the provisions that would have any kind of resource impact would kick in

fully in fiscal year 1989. We will be reviewing that during the course of fiscal year 1989.

If there were to be a need for an increase for fiscal year 1990, we would certainly be submitting that in our fiscal year 1990 appropriation request; and if there was a necessity for a supplemental for fiscal year 1989, we would also be back to you for that.

My personal hope though is that, while there is some additional work that will be required—you know, the Super 301 and the telecommunications provision and some of the reports and studies—my hope is that that could be absorbed within the current proposed budget allocation for USTR for fiscal year 1989.

Senator BENTSEN. All right. Thank you very much. I will leave these questions for Senator Daschle, who will be acting as chairman.

[The questions appear in the appendix.]

Senator DASCHLE. Mr. Ambassador, we are pleased that you are here. I will ask the ranking member, Mr. Packwood, whether he has any opening comments or questions.

Senator PACKWOOD. No opening comments, but I can assure the committee that Alan—having worked on my staff for four or five years—finds there is no limit to the quantity in increase of work you can afford with no additional budget. [Laughter.]

I have no opening comments. I have the same question, Mr. Ambassador, because between the Canada free trade agreement—and I am assuming we are going to get Canada—and the trade bill, I don't see how you can make it with 146 people. Is that the number?

Ambassador HOLMER. That is correct.

Senator PACKWOOD. And the budget that you have. I think you are probably wise not to preguess Congress as to what we might pass; but I would assume that you might have to come in with a supplemental request late this year or in January, if indeed we pass these two bills, because we have mandated a fair number of reports.

I mean you could be all over the world, and Judy simply can't do them all with the limited budget that you have.

Senator DASCHLE. Not many witnesses begin their testimony with that kind of an introduction and opening. [Laughter.]

You can appreciate the kind of respect that we all have for you and your office in this committee, and we look forward to your testimony at this time. If you want to proceed, Mr. Ambassador, we will take your testimony now.

STATEMENT OF HON. ALAN F. HOLMER, DEPUTY U.S. TRADE REPRESENTATIVE, WASHINGTON, DC, ACCOMPANIED BY MICHAEL DOYLE, ASSISTANT U.S. TRADE REPRESENTATIVE FOR ADMINISTRATION, AND JUDY BELLO, GENERAL COUNSEL

Ambassador HOLMER. Thank you very much, Mr. Chairman. What we have for fiscal year 1989, in terms of our budget request, is a request for $15.4 million; $200,000 of that is for computer and communications security, which leaves $15.2 million of what we call a recurring level, which is virtually identical to the recurring budget level for fiscal year 1987.

As Senator Packwood has mentioned, we expect to continue to address our responsibilities with 146 employees, which frankly, Senator Packwood, I think is probably at the outer limit in terms of the number of employees that USTR can manage effectively and still be the kind of lean, mean machine that you want that can respond quickly and aggressively to whatever we might get from U.S. business or from the Congress.

I would also emphasize that we have a number of other departments and agencies that are available on a moment's notice to respond to Mrs. Bello and assist her with the studies and the reports and the 301 cases and all the rest that she does for the agency.

I should note that I am accompanied here by Judy Bello, and for the first time I have the chance to introduce her to the committee as the General Counsel to the U.S. Trade Representative, not the Acting General Counsel, but as the General Counsel. Also with me is Mike Doyle, who is the Assistant U.S. Trade Representative with the responsibility for administration.

The challenge for USTR, I think, this coming year, as this past year, will be to choose our priorities carefully; and among those will be implementation of that trade bill, which we hope will become law in 1988; implementation of the Canada Free Trade Agreement, which we hope the Congress will approve in 1988; continuation of the Uruguay Round of trade negotiations activity, which I would expect will intensify during fiscal year 1989; and also the continued aggressive bilateral trade program, particularly through Section 301.

In summary, and I note we are short for time, Mr. Chairman, I believe USTR is in good shape. Morale is high. We still think of ourselves as the "Green Berets" of U.S. trade policy. [Laughter.]

Ambassador HOLMER. We are particularly proud of the record that we have had there over the course of the last three years. I would be remiss if I did not emphasize, though, that I believe the success that we have achieved is in no small measure the result of the very special relationship and the support that we have both from this subcommittee and from the full committee.

And I would note in that connection, as a part of USTR's twenty-fifth anniversary that occurred last October, President Reagan announced the creation of the Russell B. Long Fellowship to be awarded annually to a USTR staffer to help hone his or her negotiating or trade policy skills. The first Long Fellowship will be awarded this summer.

And we thought that this fellowship, created by a Republican Administration in honor of a Democratic Senator who had an awful lot to do with making USTR what it is today, really said a lot about the bipartisan nature of U.S. trade policy and about how important it is for that tradition to continue.

That concludes my remarks, Mr. Chairman. I would like to submit the lengthier written statement for the record.

Senator DASCHLE. Without objection, your entire statement will be submitted for the record.

[The prepared statement of Ambassador Holmer appears in the appendix.]

Senator DASCHLE. Senator Packwood, do you have some questions?

Senator PACKWOOD. I have no questions, Mr. Chairman, although I agree with his statement. The working relationship between USTR and the Finance Committee has been very good, and I will give you credit—all of you—on both the Canada agreement and the trade bill for bending over backwards as far as you can bend in attempting to compromise with Congress and harmonize your views.

And that is one of the reasons I think we are going to get both bills. If this had been a standoff fight with daggers drawn, there would be no bills. We could stop it and not pass it; and we wouldn't get it, and you wouldn't get. And the country would suffer, and that is to your credit.

Ambassador HOLMER. Thank you, Senator.

Senator DASCHLE. Mr. Ambassador, I haven't looked at the numbers, but I am curious. How does your budget for the next fiscal year compare to the one you have right now?

Ambassador HOLMER. If you look at the request, which is $15,393,000, and separate out a one-time only $200,000 request that is related to computer and communications security, you end up with a recurring baseline for fiscal year 1989 that is virtually identical to the recurring baseline for fiscal year 1988.

Senator DASCHLE. So, there isn't any anticipation that the workload will increase in the present budget. Obviously, if the workload increases, you would have to come back for a supplemental, would you not?

Ambassador HOLMER. I would also note that what we received in fiscal year 1988 in terms of the appropriation was, as I recall, it was $421,000 in excess of what we had requested. So, we did get a little bit more than what we had anticipated the need would be last year; that will stay in there presumably going into fiscal year 1989.

As I indicated to Senator Packwood, the additional workload that we will have in the area of telecommunications or Super 301 cases or with respect to the U.S./Canada Free Trade Agreement, to a significant extent USTR will continue the coordinating role that we have with respect to the trade functions around the departments and agencies.

The ITC is testifying later on. They have been of enormous assistance to us on a number of issues. That will continue, I expect, in the future.

So, we believe that we will have the resources, with this request, to do the job that will need to be done, even if there is something of an increase with respect to Canada or the trade bill or the Uruguay Round.

Senator DASCHLE. Just out of my own personal curiosity, as you negotiate with other countries—and some of you have probably just come back from Japan with a significant accomplishment on beef and citrus—how do you find your ability to match resources with your counterparts in other countries?

Are you able, in spite of your—as you described it—lean and mean approach to these issues, capable of competing effectively with them?

Ambassador HOLMER. I think so. I think the beef and citrus case is a good example. The predecessor to that case was a so-called

GATT-12 case that was done as a part of a GATT dispute settlement proceeding in Geneva.

What happened—as a part of that and you would have loved it—was that there were 17 Japanese males there to present their case against the U.S. position; and in walked four American women. We thought those were roughly equivalent odds——[Laughter.]

Ambassador HOLMER. And what happened was we won that GATT-12 case hands down. So, I think the fact that we may be smaller in numbers in no way reflects negatively on the kind of results that can be achieved.

Ambassador Yeutter reported that, in the negotiations we had with the Japanese, there were waves and waves of Japanese negotiators that came in during the course of those negotiations; we are talking about beef and citrus, Senator Baucus. But despite that, we came out with the result that we think is just truly excellent from the U.S. perspective.

Senator DASCHLE. We are extremely pleased with the results and quite elated with the prospects that it may hold for additional beef and citrus trade in the near future. Senator Matsunaga had some questions that I will simply submit for the record; and I will ask Senator Baucus if he has any questions before we release the panel.

[The questions appear in the appendix.]

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BAUCUS. Thank you, Mr. Chairman. First, I want to commend and thank Ambassador Holmer and all his people at the USTR and the Administration in many areas. One is the efforts in the Canadian Free Trade Agreement, which is not yet concluded, but certainly you have worked very diligently and ably on that, and most particularly the recently concluded agreement with Japan because that is a concluded agreement.

I think this is one of those instances where the United States is finally beginning to stand up for its rights and press very hard for its rights, not taking advantage of Japan; and Lord knows, that is becoming more difficult with each passing day, even if we wanted to.

Certainly, though, we have been pushing very hard to open up those markets in Japan. We didn't get everything we wanted; no one ever gets everything he or she wants. But we certainly got more than we probably expected; and second, we got more than we would have achieved had we pursued those negotiations in some respects the way this country has historically in preceding years.

I think we are entering a new era, and I commend the USTR for its very hard, driving, persistent, fair efforts. I must say, though, that I think the going is going to be even tougher in future years. And I say that because Japan, for example, is gaining even greater confidence as a nation; and in many respects, I think Japan feels that it needs us less and less with each passing month.

All indications I receive are that a club of American markets is less and less weighty and heavy, that Japan thinks America is certainly relevant but, in comparative terms, less relevant as months

and years go by from all angles and all perspectives, which means that we Americans when we negotiate future agreements with Japan are going to find it more difficult to reach the kind of agreements that we otherwise had hoped to reach.

It is my hope, Mr. Ambassador, that the USTR will seek to implement even more creative and imaginative arrangements with Japan. I have in mind a following on the Canadian Free Trade Agreement, that is, Canada is our largest trading partner. Our next largest trading partner is Japan.

I would hope that, just as the successful conclusion of the Canadian Free Trade Agreement reduces tariffs and has other major accomplishments—although major deficiencies as well—that we follow on with an agreement with Japan. And I don't know whether the new agreement with Japan has to necessarily be identical with or similar to the agreement with Canada; in fact, I suggest they go further, that is, address not only tariffs because tariff reduction is not the heart of the problem with Japan at all.

It begins to address trade deficit numbers, exchange rate agreements between the two countries, some mechanisms for addressing exchange rates, Third World debt, consumption rates, with numerical values, with specific numerical targets over a certain number of years, subject to modification; an agreement which focuses on the underlying problems we have with Japan rather than on the symptoms—Toshiba, Konsai, beef, citrus, semiconductors. Those are all symptoms of underlying problems.

I know that, included in the Canadian Free Trade Agreement, is a provision for ITC to look at a potential free trade agreement with Japan. I hope that the USTR in addition would begin to look at, and that the Administration looks at, the beginnings of a bilateral economic accord with Japan, which is more sweeping and more fundamental than the potential agreement with Canada.

Certainly, we have to pursue the Uruguay Round, but I think the bilaterals will help the multilateral talks. They will not be an impediment but will actually help, and I very strongly urge the Administration to move along these lines to try to find a bilateral accord with Japan because, if we don't, then I am confident that in the next year or two we are going to find ourselves wishing that we had.

Ambassador HOLMER. I appreciate that advice, Senator Baucus. And I would also for the record like to indicate how much we appreciate, on the beef and citrus issue, the support that you and Senator Daschle and Senator Packwood provided throughout that exercise.

I don't think it would have been possible for us to have achieved what we did without the strong backing of the Congress in that activity.

Senator BAUCUS. Thank you.

Senator DASCHLE. Mr. Ambassador, Mrs. Bello, Mr. Doyle, thank you very much. You are excused.

Ambassador HOLMER. Thank you, Mr. Chairman.

Senator DASCHLE. Our second panel will include the Honorable Alfred Eckes, Acting Chairman of the United States International Trade Commission. Mr. Eckes, if you will proceed?

STATEMENT OF HON. ALFRED E. ECKES, ACTING CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, WASHINGTON, DC

Chairman ECKES. Thank you, Senator Daschle. With us in the room today are all of my colleagues, the six members of the International Trade Commission. If any of them would like to join me at the table, they are quite welcome to do that.

On my left is Rick Arnold, our Budget Officer; on my right are Commissioner Lodwick, Commissioner Rohr; and my three other colleagues, Commissioners Brunsdale, Liebeler, and Cass are somewhere in the room; and I think they will be available, as we all are, for questions.

You have my prepared statement. Let me give you a few brief introductory comments, if you like; and then, I would be delighted to respond to questions.

The Commission unanimously approved a budget request of about $37 million and 502 full-time positions for the next budget year. We believe this level of funding and staffing will support our program and operational needs and enable us to carry out the responsibilities under the trade laws. The approximately six percent increase reflects increases in nondiscretionary cost categories, primarily personnel costs.

Now, as you know, the Commission has two primary responsibilities. First, it is a quasi-judicial agency that makes injury and causation determinations under the trade laws; and second, the Commission provides a great deal of assistance and factfinding studies on trade issues to both the Executive Branch and the Congress. It is difficult for us to estimate precisely the resource levels required to carry out these responsibilities in fiscal year 1989.

It is true that our legislative caseload has declined over the past two years. However, if the major trade legislation is passed, this trend could reverse quickly.

I would emphasize that each significant change in our trade laws since 1930 has resulted in an increased caseload for the Commission. Another possible spur to increased case filings is the expiration of steel VRAs in September of 1989. We well remember the massive filings by the steel industry in 1982, and the steel industry has promised a repeat performance if it appears that the VRAs may not be extended.

The responsibilities for our studies clearly will require substantial Commission resources in fiscal year 1989. The trade bill, as currently drafted, could involve us directly or indirectly in as many as 15 more.

In support of the Uruguay Round of trade negotiations, the Commission has an enormous task of providing advice to the President on the probable economic effects of tariff reductions on some 7,000 products.

The section on tropical products alone, which we expect to be requested to complete by this fall, will contain advice on over 400 items. We expect to conduct a number of other studies related to the MTN round.

Despite the decrease in workload of the past two years, we are requesting full funding of the 502 staff positions authorized for the Commission. There are good reasons to expect that the lull in the

investigative activity is ending; indeed, our caseload has begun to pick up over the last few months, and we believe the Commission will need the staff level in the coming fiscal year.

I believe we were extremely fortunate to have had a reduced caseload during the period when the Commission was planning and carrying out the move to our new building at 500 E Street, SW. This move coincided with the initiation of a major office automation program that would have been very difficult to effect if the workload had been anything like the meteoric levels of 1982 and 1983.

The contrast between the Commission's position in 1982 to 1984, when I served as chairman previously and presented budgets to this subcommittee, and the Commission's position today is truly striking. Then, we were struggling with insufficient staff and antiquated plant and equipment to cope with a mountainous caseload.

Now, thanks to the support of our authorizing and appropriating committees, we are at last united in one location in a modern, attractive building, constructed to our specifications. We are acquiring the technological tools to do our work more efficiently and effectively; and with the full funding of the staff level you have authorized, we will be ready to handle an expanded caseload and to provide Congress and the President with sound data and analyses for effective policy making.

In closing, Mr. Chairman, let me say that when I was chairman of the agency some five years ago, I invited the members of this subcommittee to lunch at our old Commission headquarters. Many members of the Senate braved the collapsing ceilings and vermin-infested halls to see for themselves the conditions under which we worked.

Now, I would like to repeat that invitation to lunch with the Commission so that you might see what has been accomplished through your concern with our plight. It would also give us a chance to discuss informally with you how we might assist this committee as you address the nation's trade problems in the months ahead.

Thank you for this opportunity to present our budget request. My colleagues and I will be delighted to respond to any questions that you may have.

Senator DASCHLE. Thank you, Mr. Eckes.

[The prepared statement of Chairman Eckes appears in the appendix.]

Senator DASCHLE. I also appreciate the invitation. I am sure you are going to get quite a response. I haven't seen your new building and would love to see it at some point. Senator Packwood?

Senator PACKWOOD. Mr. Eckes, how do you become acting chairman?

Chairman ECKES. By statute, Senator Packwood. Under existing law, if the President does not designate either a chairman or a vice chairman, the Commissioner who is senior-most in terms of service on the Commission automatically serves in that position. So, here I am.

Senator PACKWOOD. And does it make any difference whether the previous chairman is a Republican or a Democrat or an independ-

ent; or in this case, are those things waived, and it is just whoever the senior member is?

Chairman ECKES. Whoever the senior commissioner is.

Senator PACKWOOD. Now, as acting chairman, do you have the full powers of an appointed chairman?

Chairman ECKES. That would be my presumption under the laws, yes.

Senator PACKWOOD. Have you made any personnel changes?

Chairman ECKES. Yes, we had several positions that were vacant in the commission up until recently that were senior positions. Two of them were filled in the last month by the previous chairman; and this week, after consulting with my colleagues, I filled a GS-14 supervisory financial analyst position, but that is the only one.

Senator PACKWOOD. Have you changed any personnel or removed or demoted or moved sideways some people who were there?

Chairman ECKES. I have not changed any personnel.

Senator PACKWOOD. Thank you, Mr. Chairman. I have no other questions.

Senator DASCHLE. Thank you, Senator Packwood. Senator Bentsen wanted me to pose a couple of questions to you, Mr. Eckes, and then submit the other questions for the record.

Could you describe for the record how you see the role as acting chairman, and how does it differ from that as a full chairman? What specific functions does the chairman have that the other commissioners do not have?

Chairman ECKES. Under the law, we have what I would describe as not a strong chairmanship, but a chairmanship that is somewhat limited. For example, the majority of my colleagues can override me on almost any decision if they wish to.

There are a couple of instances where I need majority support to move forward; such as in preparing a budget proposal, I must have the support of the majority of my colleagues. And second, to terminate anyone at a GS-15 or above level, I would need the support of the majority of the commission.

I think that summarizes it briefly. The principal difference, I would say, between the designated chairman and an undesignated one, is the uncertainty of the position, the duration.

Senator DASCHLE. What impact do you have on the day-to-day operations?

Chairman ECKES. I have only been serving in this capacity a few days, and I don't think it has had any effect. I suppose one difference is that I chaired the hearing yesterday on knives, and the designated chairman had chaired hearings up to that point.

Senator DASCHLE. Does the budget you just submitted enjoy the unanimous support of the commissioners?

Chairman ECKES. It was approved unanimously by the Commission last September, I believe, yes.

Senator DASCHLE. Do you think that the Commission is currently being operated in as bipartisan a manner as you could expect?

Chairman ECKES. The Commission has never divided along partisan lines, at least in my memory, over the last seven years. Naturally, commissioners view things differently; some interpret the law differently. This is natural.

We don't tend to divide along partisan lines, and I think that is a deliberate effort on the part of Congress and the Executive Branch to create an independent, quasi-judicial agency which can be responsive and evaluate matters on the facts and make decisions that are, after all, going to hold up in court.

We have to be sensitive to the fact that a judge on the Court of International Trade or on the Court of Appeals for the Federal Circuit may reverse us, will review cases involving unfair intellectual property rights or countervailing duty and dumping cases; and I think those factors influence our approach to the law far more than do partisan consideration.

Senator DASCHLE. Can you elaborate at all—and this is my question—on what you see to be the prospects in having a permanent chairman appointed at some point in the near future?

Chairman ECKES. I have no information on it. My impression is that one will be appointed, but I really don't have any information. My impression is that members of this committee have far better information on it than I do.

Senator DASCHLE. As I said, the additional questions that Senator Bentsen had will be submitted for the record, and we would like your prompt response to those. We thank you for the presentation this afternoon. If there are no other questions, the hearing will stand adjourned. Thank you.

[Whereupon, at 3 p.m., the hearing was adjourned.]

STATEMENT OF ALFRED E. ECKES, ACTING CHAIRMAN
UNITED STATES INTERNATIONAL TRADE COMMISSION
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
U. S. SENATE
JUNE 22, 1988

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to present the International Trade Commission's budget request for fiscal year (FY) 1989. Seated next to me is Richard Arnold, the Commission's Director of Finance and Budget.

The Budget Request

The budget request that I am presenting today has been unanimously approved by the Commission. Our request totals $37,069,000 and provides for 502 full-time permanent positions. In developing the budget request for FY 1989, the Commission examined its needs and made a deliberate effort to improve utilization of resources. This request does not include any program increase.

The $37,069,000 represents an increase of $2,319,000 (or 6.7%) over our FY 1988 appropriation. Over 84% (or $1,951,000) of this increase is for nondiscretionary salary costs, including anticipated step increases, promotions and related benefits. It will fully fund the Commission's authorized staff level. The balance of the increase is for nondiscretionary space rental costs ($168,000) and normal operating costs such as supplies, travel, communications, and utilities ($200,000).

We estimate that this budget will support our program and operational needs, and provide sufficient resources to allow the Commission to accomplish its mission. Of course, it is very difficult to anticipate the demands that will be placed on the Commission 12 to 18 months in the future. We did not reflect in this budget request the effects any new trade legislation might have on Commission resource needs.

The Commission's substantive responsibilities involve investigations under the import relief statutes, and trade and tariff-related studies under Section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). Our investigative workload has declined since the record 292 investigations that were instituted in FY 1982. In 1987, 136 investigations were instituted.

The Commission initially projected an investigative workload of approximately 200 cases for FY 1988 and for FY 1989. Data through the first eight months of FY 1988 reveal a continuing decline, with 50 new investigations instituted. This is not too surprising during a period when a major trade bill was pending in Congress. While the Commission has revised the initial investigative workload projection to approximately 100 cases for FY 1988, it believes that it is premature to assume a long-term caseload change that would affect resource levels, pending activities in the current Multilateral Trade Negotiations and trade law amendments. Each significant change in trade law since 1930 has added substantially to the Commission's caseload.

Import Relief Investigations

The largest part of our caseload consists of investigations under the antidumping and countervailing duty statutes (section 303 and title VII of the Tariff Act of 1930, 19 U.S.C. §1303, 1671 et seq.). A single petition filed under Title VII is usually given several investigation numbers, one for each foreign country covered by the petition and sometimes one for each separate major product, even though typically a single investigative team does all the work, a single hearing is held, information is collected from the same group of domestic producers, and a single report is produced. When counted by investigation numbers, the Commission instituted 39 title VII cases during the first eight months of FY 1988. During all of FY 1987, 99 such investigations were instituted compared to 158 in FY 1986 and 185 in FY 1985. However, a simple case number count does not indicate the resource level required for these investigations.

Both the sophistication of analysis and breadth of coverage on our cases continues to increase as the products involved shift from basic commodities to more technologically complex items. Also, the number of workyears devoted to each investigation will increase, given the enhanced audit and statistical support we are proposing in response to recommendations in the 1987 General Accounting Office study.

Some of the Commission's more publicized cases are our so-called fair-trade cases. They are so described because petitioners need not allege any unfair trade practice in order to obtain import relief. These import relief petitions are filed under sections 201, 203 and 406 of the Trade Act of 1974 (19 U.S.C §§2251, 2253, 2436, respectively). Under section 201, the escape clause, domestic industries may be eligible for import relief if the Commission determines that increased imports are a substantial

cause of serious injury. "Review" investigations under section 203 of the Trade Act of 1974 are reports submitted to the President on the probable economic effect of modifying, extending or terminating the relief that has been previously granted to industries under the escape clause. Section 406 of the Trade Act of 1974 authorizes investigations concerning market disruption by imports from nonmarket countries.

During FY 1987, two review cases were instituted under section 203 of the Trade Act of 1974. The first of these cases involved five separate stainless steel and alloy tool steel products. The second was on heavyweight motorcycles. One market disruption case involving ammonium paratungstate and tungstic acid was conducted under section 406 during the fiscal year.

The Commission projected that it would have six fair trade cases in FY 1988 and three in FY 1989. However, as of the eighth month of this fiscal year we have instituted only one such case.

Finally, we expect that significant resources will continue to be devoted to cases brought under section 337 of the Tariff Act of 1930 (19 U.S.C. §1337). These cases involve alleged unfair methods of competition and unfair acts in the importation or sale of articles into the United States, typically, the infringement of an intellectual property right, such as a patent, trademark, or copyright. Currently, we are conducting significant investigations on erasable, programmable, memory components, and in the area of biotechnology research.

We project that 16 new section 337 investigations will be instituted in FY 1988 and 21 in FY 1989. As of the eighth month of the fiscal year we have instituted six such cases. The slowdown in filings may indicate a decline in the use of section 337, or decisions by potential complainants to wait for possible legislative changes in section 337. It bears note that the number of section 337 cases instituted does not, of itself, accurately reflect workload. The complexity of the technology at issue, the number of alleged unfair acts and other issues, and the degree of staff participation must be taken into account.

Economic Studies and Reports

The Commission is frequently called upon by the Congress and by the President to conduct investigations on trade and tariff issues under Section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). During FY 1987 the Commission completed 13 Section 332 studies in response to such requests, the same as in FY 1986. The

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Commission self-initiated one study in FY 1986 and none in FY 1987. All eleven studies completed this fiscal year, and six studies currently underway or imminent, result from legislative or executive requests.

Significant projects completed during FY 1987 and FY 1988 include the impact of U.S.-Mexico border trade and a global competitiveness study on petrochemicals, both requested by the Finance Committee; other important studies addressed U.S.-Canada free trade, preshipment inspection, GSP conversion to the Harmonized System, and intellectual property rights, all requested by the President.

Other recently completed section 332 studies include major global competitiveness studies requested by the Finance Committee; an economic impact study on TSUS items 806.30/807.00 and an examination of foreign trade zones requested by the Ways and Means Committee; and a study to facilitate continuity of import and export statistics after implementation of the Harmonized System, requested by the President.

At the request of the President, the Commission is currently studying (1) recent Japanese measures to promote structural adjustment, and (2) U.S. trade and competitiveness in certain vegetables.

Some of the technical support which the Commission provides to the United States Trade Representative in the Uruguay Round of trade negotiations is in the form of formal reports requested under Section 332. We expect this to be a major activity over the next two to three years.

The Commission will continue to play an important role with respect to the Harmonized System. During FY 1987 the Commission had one staff member assigned in Geneva to provide technical advice and support for the Article XXVIII negotiations under the GATT relating to the Harmonized System, as well as for ongoing discussions at the Customs Cooperation Council. We expect that the Commission staff will continue to be called upon to provide advice and assistance on these matters. In anticipation of U.S. implementation of the Harmonized System, we are also preparing for the maintenance of the official version of the U.S. tariff schedule as well as associated cross-references from the current to the new tariff schedules.

The Commission continues to produce periodic reports on specific commodities, including footwear, rum, autos, tungsten, and on the performance of the steel industry. The Commission always provides copies of these reports to Congress, the Executive Branch, and other agencies. In addition to these reports and studies, we provide numerous background reports on proposed legislation to the Commission's oversight committees, as well as a great deal of informal assistance. The number of such reports was over 200 in FY 1987. This demand is expected to continue at past levels.

Litigation Workload

Unlike some other agencies, the Commission has authority under 19 U.S.C. §1333(g) to appear in court on its own behalf, rather than referring appeals to the Department of Justice. The number and complexity of Commission decisions on appeal has increased steadily since the early 1980's, from 39 active cases in January 1984 to 82 in December 1987. As of March 31, 1988 the Commission had 78 cases pending before the courts.

General Accounting Office Recommendations

The General Accounting Office made several observations during their review of the Commission. New procedures have been implemented in the areas of procurement and the safeguarding and handling of security information and confidential business information. We are reviewing our information resources management responsibilities, our methods of the verification of data and the need for certain recurring reports. Also, we are examining our questionnaire process and related considerations.

Relocation

Public Law 98-523 (October 19, 1984) authorized the transfer of the U.S. International Trade Commission's headquarters building at 701 E Street, N.W. to the Smithsonian Institution and required the General Services Administration (GSA) to relocate all Commission functions to a single downtown Washington, D.C. office facility. The Commission completed its move into its new headquarters at 500 E Street, S.W. in January 1988. This is the first time the Commission has been at a single location since 1975. We appreciate the strong support of our authorization and appropriations committees on this move.

Conclusion

It is likely that trade and trade legislation will remain in the forefront of public debate for several years. As a result, the Commission will continue to play an important role in its quasi-judicial determinations under the trade laws. In addition, its independence and expertise will continue to attract requests for data and analysis of trade issues. New rounds of trade negotiations begun in Punte del Este in 1986 are already creating demand for comment and advice. Finally, new trade legislation, implementation of the Harmonized nomenclature, changing trade barriers, continued abuses of intellectual property rights, and free trade area consideration will all affect the growing demand for sophisticated analysis in import relief investigations, and fact-finding studies where greater expertise in both international trade and industrial organization is required.

It is important that Congress have confidence in our ability to provide sound analysis and data to trade policymakers and at the same time to fulfill our responsibility for investigating claims under the import relief laws. I believe that the Commission's budget request for fiscal year 1989 will provide us with sufficient resources to meet these demands. I will be pleased to answer any questions you may have.

Thank you.

RESPONSES OF ANNE E. BRUNSDALE, ACTING CHAIRMAN1/
U.S. INTERNATIONAL TRADE COMMISSION
TO QUESTIONS FROM THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE

QUESTIONS OF SENATOR BENTSEN

1. Question:

There have been reports in recent months of administrative problems in the internal operations of the ITC -- management positions left vacant for months on end, a high overall vacancy rate, problems in getting reports out on schedule, etc. What would you do as Chairman to improve this situation?

Response:

As of June 22, the on board and committed staff level at the Commission is 470 out of a full-time approved staff level of 502. I believe that the vacancy rate is directly related to the decrease in the Commission's caseload. As the caseload has declined, hiring to fill vacancies has become a less pressing priority. Our managers have taken advantage of the lighter caseload to move slowly on hires in an effort to select the best applicants, and in some instances they have conducted multiple interviews and readvertised vacancies. In a number of instances, Commissioners have asked for reconsideration or have overriden hiring decisions made by the managers and the Commission's chairman, and such actions have added to the time taken to fill vacancies. I intend to work with the senior staff and my fellow Commissioners to try to fill our vacancies with personnel of the highest qualifications.

As you note, there were delays in the completion of some 332 studies this past year. These delays resulted mainly from the particular circumstances under which the studies at issue were done. The Commission received an unusually high number of requests within a very short time frame, and the studies required a more sophisticated level of data gathering and analysis. As difficulties arose, it became apparent there were too many studies due at the same time and they had been assigned to the same division. We believe that this was an isolated situation arising from unusual circumstances.

To ensure that no difficulties arise with respect to timeliness or quality of current and future studies, however, the senior staff was

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1/ Pursuant to 19 U.S.C. 1331(a)(3), the views stated herein are those of Acting Chairman Brunsdale and not necessarily those of the U.S. International Trade Commission.

asked to review all factors surrounding the studies at issue to ensure that the same situation does not occur in the future.

A number of steps have been taken to improve the 332 study process:

In January 1988 two questionnaire experts began a ten-month project to assist the Office of Industries to: review and improve questionnaire design and format; establish standard introduction, instruction, and definition sets; and improve estimation and statement of respondent burden estimates, improve field testing and targeting of questionnaire clearances. In addition, these experts will recommend training and other internal support needs, test and implement new questionnaire design and procedures, and provide a handbook to guide analysts in these procedures. Further, the Office of Industries is coordinating more closely with requesters and the Office of Management and Budget (OMB), to ensure that studies are tailored more closely to requester needs and that OMB is fully apprised of requester expectations regarding content and due dates.

In order to improve status monitoring and internal coordination, biweekly 332 status reports have been issued since January 1988. The Chairman's office, in November 1987, began organizing earlier Commissioner staff involvement in project design, and coordinating Commissioner comments on final report drafts.

The migration from central data processing to local-area PC networks has been accelerated. The Office of Industries has more than doubled its capabilities for internal processing of questionnaire and other data processing to reduce reliance on data processing outside the office. By the end of FY 1988, the Office of Industries will have trained at least two persons in every division to at least intermediate level in handling Statistical Analysis System (SAS) processing of data either using NIH or PC-based SAS software.

As I have noted above, I intend to make every effort to fill our vacancies with personnel of the highest qualifications, and I also plan to ensure that our studies are timely and of high quality. In particular, I will closely monitor progress underway in correcting certain shortcomings in the execution of Section 332 studies.

As I address these and other issues, and if any problems should arise, I will consult with my fellow Commissioners and with the senior staff in order to ensure, to the best of my ability, that the Commission functions smoothly and meets its statutory responsibilities.

2. Question:

I understand that the ITC's overall caseload has declined significantly in the last two years. To what do you attribute the decline? Has the general perception that certain Commissioners have a "free trade" bias against industry petitions had an impact?

Response:

The overall caseload at the International Trade Commission declined significantly in the last two years. The number of separately numbered investigations fell from 214 instituted in 1986 to 136 in 1987 to 50 investigations for the first eight months of FY 1988 compared to 100 for the same period of FY 1987. There is also a parallel decrease when Title VII investigations are counted by product line.

It is very difficult to determine why the caseload has declined. There are, however, a number of factors that could explain it. First, as the dollar has fallen relative to certain foreign currencies, the price of some foreign goods has risen. That may have relieved pressures from import competition for many U.S. firms, prompting them to file fewer injury complaints. In addition, the improvement in the general economy and the recent surge in exports make it increasingly difficult for some domestic industries to establish injury or threat of injury in trade proceedings. Third, many people believe that the decrease in workload is attributable to proposed changes in the trade laws -- that is, some would-be petitioners may be waiting to file petitions under the new law. Fourth, domestic industry is becoming increasingly internationalized. Many domestic firms import components of their products or even a portion of their product line, and many domestic producers are foreign-owned or have foreign commitments that cause them to be reluctant to turn to the trade-remedy laws. Last, there has been a significant decline in cases involving products now covered by bilateral voluntary restraint agreements and similar accords. This is particularly true for the steel and semiconductor industries. In my opinion, all of the above factors have had some effect on the number of cases filed.

I do not believe that the decline in the caseload is a result of a "general perception that certain Commissioners have a 'free trade' bias against industry petitions." If any general perception of such bias exists, it is not supported by the records of ITC decisions. The Commission almost always acts favorably on Title VII petitions at the preliminary stage and increasingly acts favorably at the final stage as well. In fact, the percentage of final affirmative determinations has increased from 67 percent in 1984 to 81 percent in 1987 (see chart provided in response to Question Number 3).

3. Question:

What has been the record of affirmative vs. negative determinations at the ITC over the last 4 years? What explanation is there for any shift in the record?

Response:

The following table lists the number of affirmative and negative determinations made by the Commission in each calendar year by type of investigation.

Type of Investigation	1984	1985	1986	1987
SECTIONS 201, 203, AND 406				
Affirmative 1/	2	1	1	2
Negative	4	1	4	1
TITLE VII				
Preliminaries:				
Affirmative 1	59 (89%)	92 (83%)	78 (84%)	20 (91%)
Negative	7 (11%)	19 (17%)	15 (16%)	2 (9%)
Finals:				
Affirmative 1/	24 (67%)	18 (60%)	37 (77%)	50 (81%)
Negative	12 (33%)	12 (40%)	11 (23%)	12 (19%)
Reviews: Affirmative	3	0	0	1
Negative	2	1	1	2

1/ Includes partial affirmative.

The investigations under section 751 (reviews) and sections 201, 203, and 406 are too few in number to show any significant trends. In preliminary Title VII determinations, however, there is a noticeable trend -- a drop in the number of negative findings from 17 percent of the votes in 1985 to only 9 percent in 1987. One possible reason for this is the decision in American Lamb Co. v. United States, 785 F.2d 994 (Fed. Cir. 1986) stating that the ITC's longstanding practice of reaching a negative preliminary determination only when (1) the record contains clear and convincing evidence that there is no material injury (or threat) and (2) no likelihood of later contrary evidence is permissible under the statute.

The increase in the number of final affirmative decisions may be due in part to the 1984 amendment to the Tariff Act of 1930 requiring the Commission to cumulate imports from different countries in Title VII cases. This was effective for cases filed or refiled after October 30, 1984. Beyond this factor, there is no readily apparent explanation for the increase in affirmative final determinations, other than the facts at issue in each of the cases in question.

4. Question:

The Congress has recommended that the implementing legislation for the U.S.-Canada Free Trade Agreement include a provision to help industries that may be impacted by subsidized import competition. The provision would involve the ITC because it envisions using Section 332 studies to help gather information on industry conditions.

The Administration now proposes to make this provision apply to imports from all countries, not just Canada. Is the ITC equipped to deal with a substantial increase in Section 332 studies as a result?

Response:

This provision would allow industries affected by subsidized Canadian competition to petition the United States Trade Representative (USTR) to monitor industry conditions and trade flows of the subsidized products and to review the data collected on a regular basis. Because the USTR has limited staffing and thus limited ability to collect data relating to the anticipated condition of the domestic industry, the new legislation can be expected to trigger requests for the Commission to carry out increased numbers of investigations under section 332. If the provision is "globalized," that is, made to apply to all countries, not just Canada, the potential impact on USTR and therefore the Commission would further increase.

Because the impact of this provision on the Commission will depend largely on how it is administered by the USTR and how industries respond to the opportunity to petition USTR, it is impossible to determine at this time just how significant the impact will be.

The Commission has requested full funding for 502 positions. We currently have 470 on board or committed. This gives us the capacity to handle our workload as originally projected. If the workload increases, we will absorb the expanded requirements within our authorized resources to the extent possible, and will notify our authorization and appropriation committees if additional resources are needed.

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QUESTIONS OF SENATOR MATSUNAGA

1. Question:

(Assuming the new Chairman is appearing before the Committee.) As the newly appointed Chairman, do you have any changes that you plan to make in running the ITC and in managing its daily operations?

Response:

I have been appointed Vice Chairman of the Commission, and am serving as the Acting Chairman. As issues arise during my stewardship of the Commission, I will consult with my fellow Commissioners and with senior staff to try to ensure that the Commission functions smoothly and meets its statutory responsibilities. While I do not have specific plans for major changes, I will address any and all management problems as necessary. In particular, I will closely monitor progress underway in correcting certain shortcomings in the execution of Section 332 studies.

2. Question:

I note in your budget request that the Commission projects an increase in its caseload to expand substantially in the next fiscal year to approximately 200 cases a year. In FY 1987 the ITC caseload was only 136. Can you please explain the basis for your projection of an increasing caseload? What sort of projection do you make for FY 1989?

Response:

The Commission's caseload projection is developed initially by the senior managers, and is then reviewed and, if appropriate, adjusted by the Chairman in consultation with staff. The first-cut projection is based on contacts with Commission management, USTR, industry officials, and representatives of the trade bar. Staff then takes into account other factors such as the effect of Uruguay Round discussions on section 332 studies and the expiration of the steel VRAs in 1989. The pending trade bill, for example, may have postponed a number of case filings, as complainants await the new legislation. Alternatively, its passage could reduce the import activity that generates trade cases. It is premature to assume a continuing low level of activity or to assume an increase in the caseload.

In May 1988, our FY 1989 projection was revised from 200 to 119 cases. As the issues noted develop, there may be need for further adjustment.

3. Question:

If your projected caseload increase does not materialize, do you believe that the Congress should reduce the current staffing level of 502 personnel? Or do you believe there is another need for the excess personnel?

Response:

For the reasons stated in response to the previous Question Number 2, I believe it is premature to reduce the Commission's authorized staff level for FY 1989. While it is true that the investigative caseload has declined over the past two years, the Commission does not control its own caseload and should be prepared to handle possible increases. Moreover, most Commission personnel are not directly involved at any one time in investigations, but instead provide the staffing and background expertise for studies and information requested by Congress and USTR as well as for forthcoming cases.

4. Question:

The omnibus trade bill includes numerous new functions for the ITC, for example, requirements to monitor certain imports, expand the ITC's responsibilities in Section 201 cases and miscellaneous studies on import problems. If the ITC's projections of its normal caseloads are realized, can it deal with these additional responsibilities as well?

Response:

The Commission has requested full funding for 502 positions. This gives us the capacity to handle our projected workload. If workload increases, we will absorb the expanded requirements within current resources to the extent possible, and will notify our authorization and appropriation committees if additional resources are needed.

5. Question:

Members of Congress sometimes receive requests from their small business constituents for advice on how to deal with import competition and what remedies are available under the trade laws. The Trade and Tariff Act of 1984 required the ITC to establish a Trade Remedy Assistance Office to provide information to the public upon request concerning the trade remedies and procedures for seeking relief. Can you tell me what level of requests you have had from the public on this office? Can you tell me what staffing levels have been assigned to this office?

Response:

Since 1985, the Trade Remedy Assistance Center (TRAC), located in the Commission's Office of Unfair Import Investigations, has served as an informational center for members of the public who have questions about the trade remedy laws. TRAC received approximately 220 inquiries in FY 1987 and about 140 inquiries in the first eight months of FY 1988. Approximately three-quarters of these inquiries were related to section 337 unfair trade practices, Title VII countervailing duty and antidumping investigations, and section 201 escape clause investigations.

In addition to providing the public with general information about trade remedy laws, TRAC has also provided more detailed assistance to businesses having potential causes of action under laws administered by the Commission and, when appropriate, has referred inquiries to other agencies responsible for administering other trade remedy laws, such as the Commerce Department and Treasury Department (U.S. Customs Service). Approximately 60 percent of all inquiries are initiated by businesses directly; trade associations, congressional offices and law firms account for almost all the balance.

A staff attorney located in the Office of Unfair Import Investigations (OUII) serves as Trade Remedy Assistance Center Officer and has primary responsibility for handling TRAC inquiries. This person works closely with the Director and supervisory attorneys in OUII and is assisted by a paralegal and several legal technicians. The full scope of OUII's resources is available to TRAC.

During FY 1987, TRAC required approximately one and one half work years of effort, about the same as in FY 1986. It is anticipated that this program will need about the same level of resources or slightly more in FY 1988 and FY 1989.

6. Question:

What kinds of studies have been requested of the ITC by the President to support his negotiating effort in the Uruguay Round, and what demands has this placed on your personnel? How do you anticipate future developments in the Uruguay Round will affect the demands on the ITC in your support role in the negotiations?

Response:

In February 1988 the Commission completed a 332 study on the cost to U.S. industries of the lack of adequate protection of intellectual property rights protection in foreign countries. The report is entitled Foreign Protection of Intellectual Property Rights and the Effect of U.S. Industry and Trade.

The Commission has begun advance work on two studies under the authority of the Trade Act of 1974 (which requires the Commission to conduct investigations requested by the President regarding the reduction of U.S. tariffs and possible agreements on nontariff barriers in trade negotiations). In addition, the Commission is aware of three investigations the President will be requesting the Commission to undertake in this fiscal year or next. All of these studies involve various background data on U.S. and foreign industry and trade policies and advice on the probable effects on U.S. industry and consumers of tariff and trade policy changes under consideration in the negotiations. They are designed to provide a detailed information base for use by U.S. trade negotiators.

(1) Preliminary work on the following two studies is underway:

MTN Tariff and Nontariff Barrier Probable Effects Advice. On the basis of Trade Policy Staff Committee action of May 6, 1988, we anticipate a formal request from USTR in December for submission of Uruguay Round probable-effects advice on tariffs and selected nontariff measures by late spring 1989. The advice requested will include (a) the effects of liberalization of all U.S. tariffs and selected U.S. nontariff measures on U.S. imports, production, employment, and consumers, and (b) an evaluation of U.S. export potential assuming certain foreign tariff concession and MTN eliminations.

Trade in Services: Information in Support of the Uruguay Round Negotiations. On the basis of a Trade Policy Staff Committee action of June 17, 1988, the request for this study is expected within the next few days. It will ask us to (a) develop profiles of selected U.S. and foreign service industries' domestic and international operations, (b) assess how nontariff measures affect U.S. trade in services, and (c) estimate the effects on U.S. service industries of removing certain nontariff measures.

(2) A request for the following three studies is expected shortly:

Tropical Products Probable Effects Advice. The U.S. Trade Representative will make a formal request to the Commission in the very near future calling for expedited submission of Uruguay Round probable-effects advice on tariff and selected nontariff measures on certain select tropical products. The advice requested will include the effects of liberalization of U.S. tariffs and selected U.S. nontariff measures on U.S. imports, production, employment, and consumers.

A Survey of Recent Research on International Trade Distortions in Agricultural and Tropical Products With Applications to the Uruguay Round. This request will involve a review of publications issued over the past five years by governments, international organizations, research institutes, and other recognized authorities, which identify, analyze, or assess trade-distorting policies or practices of the major trading nations in agricultural and tropical products.

An Analysis of the Tariff Equivalents of Nontariff Measures Affecting Agricultural and Tropical Products of the Major Trading Countries. This request will seek a calculation of tariff equivalents of existing border measures, particularly quotas and variable levies, affecting agricultural and tropical products in the United States, Canada, the European Community, the European Free Trade Association, Japan, Argentina, Brazil, and Korea.

Over the next year the Commission anticipates that these five studies will consume a total of 55 to 60 work years of staff resources, or roughly a third of the Commission's research staff. We further anticipate that as the Uruguay Round develops there will be additional study requests. While their extent is not known, it is expected to be minor compared to that of the five major studies outlined above. In addition to formal study requests, the Commission also provides technical support to the U.S. Trade Representative during trade negotiations; this support is limited and can be provided within current staffing levels.

7. Question:

I know that the ITC has been actively involved in developing the new US tariff schedule under the Harmonized Code nomenclature. Hopefully, the Congress will approve this measure in the near future. Once the HS is in place, does that fact change the workload demands for many people in the ITC?

Response:

Over the years, responsibility for the Commission's involvement in the Harmonized System effort has been carried on largely by the Commission's Office of Tariff Affairs and Trade Agreements. Once the

Harmonized System is in place as a result of the passage of the Omnibus Trade and Competitiveness Act of 1988, the Commission will undertake various new responsibilities regarding the Harmonized Tariff Schedule. These include participating in the continuing work of the Harmonized System Committee which, under the Harmonized System Convention, is responsible for securing uniformity in the administration of the system and proposing amendments to keep it up to date; for preparing proposals to modernize and simplify the U.S. tariff; and for conforming the U.S. tariff schedule to amendments agreed to by the Contracting Parties to the Harmonized System Convention. In addition, we anticipate that our work regarding the foreign trade and statistical program under section 484(e) of the Tariff Act of 1930 will intensify.

Under the circumstances, we expect that our work demands will change once the Harmonized System is implemented. However, at this time we do not anticipate that additional resources will be necessary, as our staff will merely shift its attention from preparing the tariff to maintaining it.

TESTIMONY

OF

AMBASSADOR ALAN F. HOLMER

BEFORE THE

SENATE FINANCE COMMITTEE

SUBCOMMITTEE ON INTERNATIONAL TRADE

JUNE 22, 1988

Mr. Chairman, I am pleased to appear before you this afternoon to present the Fiscal Year 1989 budget request for the Office of the United States Trade Representative (USTR).

The budget request we submitted for FY 1989 is straightforward and builds on the level of support provided in FY 1988. It asks for $15,393,000 and a staff level of 146 positions. The recurring portion of this request is $15,193,000 and 146 positions. The difference of $200,000 is for a one-time expenditure for computer and communications security. This will complete the computer/security upgrade initiative begun with $300,000 of non-recurring funds in FY 1988.

The FY 1989 request is $164,000 above the FY 1988 appropriation of $15,229,000 and reflects the same staffing level -- 146 positions. The recurring portion of the request -- $15,193,000 -- is $36,000 below the FY 1988 appropriation.

FY 1989 Resource Needs

The resources we have requested will allow USTR to provide the leadership and effort necessary to making significant progress in these important areas of trade policy. Last year, the Congress provided substantial support for FY 1988. The appropriation was $157,000 above the President's amended request. It also included $300,000 that the Administration had requested on a one-time basis for the first phase of the agency upgrade of its computer capacity and related improvements in the protection of sensitive information. Attached is our most recent trade policy update which indicates the range of issues we are currently working on.

Recurring Base

Our recurring request of $15,193,000 includes all but $36,000 of these resources-- or a total of $421,000 beyond the President's FY 1988 recurring request. That amount will allow us to cope with a variety of anticipated cost increases in FY 1989. These include: annualized costs of the FY 1988 pay raise; the estimated effects of the continued deterioration of the dollar vis-a-vis the Swiss Franc in FY 1988; modest inflation in certain cost categories; and projected operating costs resulting from the FY 1988 computer/security upgrade.

Of course, the most important part of USTR's base is its core staff. Steps underway to further strengthen our staff include completion in FY 1989 of an SES candidate development program begun in FY 1987; establishment of a competitively awarded fellowship in honor of Senator Russell Long for a career staff member to hone his/her negotiating and trade policy skills in a development assignment up to one-year long; and annual review of staff assignments aimed at taking full advantage of job rotation to broaden our multilateral, bilateral and sectoral trade policy skills.

We are requesting the same level of representation funds--$69,000-- as in FY 1988. We are also requesting continued no-year spending authority of $1,000,000 to manage out-year fluctuations in the dollar/Swiss Franc exchange rate.

Computer and Communications Security Upgrade

This request completes the initiative begun in FY 88 to provide solid protection for the production and communication of sensitive information which USTR deals with daily. It is important to complete in the early stages of the Uruguay Round. This project is based on the 1986 survey of USTR by the National Security Agency which contained specific recommendations to strengthen our level of information/communication protection.

The request is also consistent with our management strategy for the Uruguay Round. As we shared with the committee last year, the large number of new and complex issues requires Washington-based experts and negotiators to handle them in Geneva. Our staff in Geneva will be kept small. Last fall, we established a Trade Negotiations Center in our Geneva office. Located in the Botanic building, it already provides a range of support services to delegations from Washington who participate in Uruguay Round negotiations. It includes office and meeting space, secretarial support and limited computer and communications support.

Related FY 1988 accomplishments include the move of USTR's computer facility from leased space in a private office building to the basement of USTR's Winder building (completed last month); the acquisition of new mainframes -- including a secure computer-- for the first time (completed), and related peripheral equipment. The secure computer will service the entire trade community by allowing the review and clearance of interagency trade policy papers in a secure environment. It will be on-line later this summer.

In FY 1989, $200,000 will be required to complete the last phase of NSA recommendations which includes installing secure data communications from Geneva to Washington and providing a base of user-friendly secure voice units. Developments in meeting State Department regulations for secure processing and communications result in the following planned expenditures for Geneva: $51,250 is required to purchase tempested encryptors and communications equipment including 2 tempest multiplexors, 4 modems, 2 KG84's, cabling and installation; $58,000 is needed to significantly upgrade the physical security environment covering alarms, power filtering, KG84 safe and other enclosures in Geneva; $90,750 will fund the acquisition of two tempested personal computers, one for Washington and one for Geneva, 2 tempested facsimile transmission machines for Washington and Geneva, 5 Secure Voice Phone units (STU-IIIs) for Washington and 4 STU III's for Geneva.

Trade Bill And CFTA Workload Impacts

The omnibus trade bill has a number of provisions which would have some degree of impact on USTR's workload. These involve mostly reports and studies. We would try to absorb these requirements in FY 1989, without requesting additional resources. We would assume that some of the work can be supported by other agencies. If we conclude that we have a resource problem, we will consider it in the course of developing our FY 1990 request.

The Canada Free Trade Agreement (CFTA) does pose additional expenses for support of the secretariat, panels and committees which would be established in the enabling legislation. We are in discussions now with Commerce and OMB to develop some useful cost estimates for FY 1989, and how they might be handled.

The resources contained in our request will allow USTR to get the job done next year in key bilateral and multilateral areas -- including the Uruguay Round.

Uruguay Round Update

Now a year and a half old, the Uruguay Round of Multilateral Trade Negotiations has made solid progress. We are well ahead of where we were at a similar stage in the Tokyo Round. More than 200 papers of various kinds have been submitted by the participants. In fact, we have been particularly impressed by the wide participation and seriousness with which the negotiations have been conducted. It is very clear that our trading partners, including developing and newly industrializing countries, realize the importance of improving and strengthening the rules for an open and fair trade system.

This December a meeting at the ministerial level will be held in Montreal, Canada, to review progress in the Round. Trade and other ministers from the OECD countries agreed in Paris last month to seek agreements at Montreal on a "framework approach" in all negotiating areas to guide us during the final two years of the four-year timetable specified by the Punta Del Este Declaration. Between now and December, we expect to push forward in each of the negotiating groups -- which continue to meet each week in Geneva -- to achieve maximum progress in the areas of importance to us. We will also pursue a parallel informal process at the ministerial and subcabinet levels to prepare for the Montreal meeting. Several such meetings are currently contemplated, including one in Geneva in July and one at the ministerial level in Islamabad, Pakistan, in early October.

Conclusion

Overall, the USTR is in good shape. This is due in no small measure to the steady support of this subcommittee and the full committee. It is due also to the character and morale of the staff who work at USTR. We are a small agency. In my judgment, we need to remain small to be most effective. This requires constant attention to carefully choosing among competing priorities. It also requires constant attention to getting effective support from all the agencies which make up the trade community. USTR has been fortunate in garnering that support. We expect to continue to do so in FY 1989.

This completes my formal presentation, Mr. Chairman. I will be happy to respond to questions you may have.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

THE PRESIDENT'S TRADE POLICY: AN UPDATE

On September 23, 1985 President Reagan outlined a trade policy consisting of three parts: tough action against other nations' unfair trade practices, negotiations to liberalize world trade, and international economic policy reforms that would help both U.S. exporters and import-sensitive industries.

The President's policy has achieved major progress on all fronts. Here is a summary of its achievements.

I. FIGHTING UNFAIR TRADE

SECTION 301

Since September 7, 1985, the United States has challenged unfair trade practices 26 times by expediting, initiating or threatening to initiate investigations under section 301 of the Trade Act of 1974. In 17 cases this has resulted in an end to the dispute; investigations are continuing on four other cases, President Reagan has ordered sanctions on three cases, and two cases are pending before the GATT.

EC Enlargement

The European Community (EC) agreed on January 30, 1987 to provide full compensation to the U.S. for higher corn and sorghum tariffs imposed in Spain following that country's accession to the EC. The $400 million compensation package includes guaranteed imports of 2 million metric tons of corn and 300,000 metric tons of sorghum by Spain. Another 400,000 metric tons of grain may be sold in Portugal as a result of elimination of a requirement reserving 15 percent of the Portuguese grain market for sales from other EC member countries. The EC will also lower tariffs on 26 other products to provide additional market access and extend all current EC tariff bindings to Spain and Portugal. These actions were taken after President Reagan had announced retaliatory measures under section 301, which were suspended when the dispute was settled.

-- As part of the same section 301 case, the President on May 16, 1986 proclaimed quotas on certain EC products

to mirror the effect of EC quotas on vegetable oils in Portugal. So long as these EC quotas do not hurt our trade, the U.S. quotas will be maintained at non-restrictive levels.

Japan Tobacco

Japan and the U.S. settled a self-initiated section 301 case on October 6, 1986 when Japan agreed to open its cigarette market to U.S. cigarette exporters by suspending its 20 percent tariff on cigarette imports, by ending the discriminatory practice of allowing deferred payment of excise taxes by the Japanese monopoly and by eliminating distribution and price approval problems. U.S. cigarette exports to Japan increased to $422 million in the first ten months of 1987, compared to $100 million during the same period of 1986. Eventually these exports could reach $2 billion. This settled a self-initiated section 301 case.

Taiwan Beer, Wine and Tobacco

Taiwan agreed to open its beer, wine and cigarette markets to American exports on December 5, 1986 after President Reagan instructed Ambassador Yeutter to propose retaliatory action under section 301. The value of U.S. cigarette exports alone increased to $98 million in the first ten months of 1987, up from just $2.6 million during the same period of 1986.

Korea Cigarettes

Korea agreed to liberalize its market for tobacco products on May 6, 1988, enabling U.S. companies to compete fairly in its $2.1 billion cigarette market. This settled an industry-filed section 301 case.

Japan Semiconductors

Japan agreed on July 31, 1986 (with formal documents exchanged on September 2) to open its market to sales of U.S. semiconductors, which should increase semiconductor exports by $5 billion in five years. Japan also agreed to prevent Japanese companies from "dumping" computer chips below cost in the U.S. and third country markets. This resolved an industry-initiated section 301 case and two antidumping cases.

-- President Reagan imposed sanctions on $300 million worth of Japanese exports to the U.S. on April 17, 1987 for Japan's failure to implement the agreement fully. These sanctions were partially lifted on June 8, 1987 and November 10, 1987 after Japanese companies first

reduced then eliminated their dumping in third country markets. Sanctions totalling $164 million remain in place because of the lack of progress in opening Japan's market to imported semiconductors.

Brazil Informatics

In response to another self-initiated section 301 case, the President announced on November 13, 1987 that he would impose sanctions on about $105 million of Brazil's exports to the U.S. because of unfair Brazilian policies regarding trade in computer software. The imposition of the sanctions has been postponed until Brazil drafts the implementing regulations for its new Software Law. The U.S. continues to monitor developments in other areas of the "informatics" law, including investment.

EC Citrus and Almonds

The EC agreed on August 10, 1986 to give U.S. citrus producers additional access to the European market, ending a dispute since 1969 on the EC's special treatment for Mediterranean citrus imports. The U.S. and EC also agreed to reduce tariffs on other products, including European duties on almonds, which will give U.S. almond producers additional access to the European market. (These tariff changes are subject to Congressional approval; legislation for this purpose is still pending in Congress.) These agreements were reached after President Reagan retaliated against the EC's citrus preferences under section 301, raising EC pasta duties on November 1, 1985. (As part of the settlement, the U.S. rescinded the increases in pasta duties and the EC rescinded duties it had imposed on U.S. walnuts and lemons.)

EC Pasta

The U.S. and the EC settled a dispute over subsidized European pasta exports on August 5, 1987. Under the agreement, which went into effect on October 1, 1987, the EC will reduce its export subsidies on pasta -- initially by 27.5 percent. This is intended to result in the elimination of subsidies on half the pasta exported from the EC to the U.S.

Japan Leather and Leather Footwear

Japan agreed on December 21, 1985 to compensate the U.S. for GATT-illegal leather and leather footwear quotas by eliminating tariffs on 137 items, including paper, aramid fiber and five important aluminum products, and making permanent 242 earlier tariff reductions. Japan replaced its import quota scheme on leather with a tariff-rate quota, which would increase the size of the quota over a five-year period. In

addition, the U.S. imposed higher duties on Japanese leather and leather footwear imports to the U.S. This settled two long-standing disputes on which the President set a three-month deadline for resolution, saying he would evoke his authority to retaliate if they were not settled by then.

Japan Aluminum

Following consultations on October 31, 1986, required as part of the leather agreement, Japan began to phase out its tariffs on aluminum imports, eliminating them completely by January 1988.

Korea Insurance

Korea agreed on July 21, 1986 to eliminate prohibitions against underwriting by foreign firms of life and non-life insurance, ensuring fair access for U.S. firms to Korea's $5 billion insurance market. In September 1987 the U.S. and Korea amended this agreement to ensure that U.S. insurance firms could operate in Korea through joint ventures.

Korea Intellectual Property

Korea agreed on July 21, 1986 to offer significantly greater protection to intellectual property, including patents, copyrights and trademarks, settling a self-initiated section 301 case. The U.S. and Korea are discussing enforcement of the copyright laws.

Korea Motion Pictures

A potential section 301 case was avoided when Korea agreed on December 23, 1985 to reduce its barriers on importing and distributing U.S. motion pictures, television programs, and video materials.

Chile Patent Protection

Following consultations between the U.S. and Chile on March 29-31, 1988 the Pharmaceutical Manufacturers' Association withdrew its petition for a Section 301 investigation into Chile's inadequate protection for patents. Chile agreed to adopt product patent protection for pharmaceuticals and fine chemicals,and to extend retroactive protection for "pipeline" products. The U.S. will continue to monitor the drafting of a new Chilean patent law.

Taiwan Customs Valuation

Taiwan agreed on August 11, 1986 to fulfill its commitment to use the transaction value, instead of an artificial duty

paying schedule, to calculate customs duties. This action came after the President directed Ambassador Yeutter to propose retaliation under section 301.

India Almonds

India settled a seven-year dispute over trade in almonds on May 31, 1988 that will result in additional access for U.S. almond growers. During the first three years of the agreement, India will allow its almond imports to increase to $20 million. In the second three-year period, India will remove all import licensing restrictions on almonds. This settles an industry-filed section 301 case.

EC Canned Fruit

The EC agreed on December 1, 1985 to phase out the processing element of subsidies for canned peaches, giving U.S. canned fruit exporters a chance to compete in the EC market. This settled a long-standing section 301 case on which the President had set a deadline for retaliation.

Argentine Soybeans

The U.S. suspended a section 301 investigation into Argentina's soybean export tax differential on May 14, 1987 based on Argentina's assurance that it planned to reduce the export tax and thus any differential. The differential was reduced from 15% to 8% in February 1988. Discussions will continue on further reductions.

Canada Fish

A GATT panel ruled on November 20, 1987 that Canadian prohibitions against the export of unprocessed herring and salmon violate the GATT. This case had been brought to GATT after the U.S. initiated a section 301 investigation on May 16, 1986. The U.S. and Canada are discussing the implementation of the panel report.

EC Meat Hormones

President Reagan imposed duties on $100 million worth of exports from the European Community to the U.S. on December 24, 1987 to ensure that the EC does not restrict imports of American meat from animals treated with growth hormones. Following the President's threat to retaliate under section 301, the EC postponed its ban on such meat for one year. As a result, the President suspended the U.S. sanctions.

Japan Citrus and Beef

On May 25, 1988, Ambassador Yeutter initiated a section 301 investigation of Japanese quotas and other restrictive practices relating to the importation of oranges and orange juice. This case was brought following the expiration of the U.S.-Japan beef and citrus agreement on March 31, 1988. The U.S. has brought both the beef and citrus disputes to GATT and is seeking a negotiated settlement with Japan.

EC Meat Inspection Rules

On July 22, 1987 Ambassador Yeutter initiated a section 301 investigation of EC standards for U.S. slaughter and processing plants that produce meat products that are exported to the EC.

Brazil Pharmaceuticals

On July 23, 1987 Ambassador Yeutter initiated a section 301 investigation of Brazil's lack of patent or process protection for pharmaceuticals.

EC Soybeans

On January 5, 1988 Ambassador Yeutter initiated a section 301 investigation of the European Community's oilseeds subsidy program, which is inconsistent with the EC's agreement to maintain a zero tariff rate and creates barriers to the importation of soybeans.

Korea Beef

Ambassador Yeutter initiated a section 301 investigation of discriminatory Korean trade practices limiting imports of American beef on March 28, 1988. The U.S. is seeking the formation of a GATT panel to settle the dispute.

Korea Wine

On June 13, 1988, Ambassador Yeutter initiated a section 301 investigation of Korean trade barriers to the importation of U.S. wine.

OTHER TRADE REMEDIES

In addition to section 301, President Reagan has used other statutes to fight unfair trade and to deal with other trade problems facing U.S. business:

Canada Lumber

On December 30, 1986 the United States and Canada settled a

long-standing dispute over Canada's lumber pricing practices. Canada agreed to implement a 15 percent export tax on lumber, thereby neutralizing the effect of its lumber subsidies. On December 16, 1987 the U.S. and Canada further agreed on changes in British Columbia's lumber pricing practices that eliminate the subsidies.

Japan Construction Projects

The U.S. and Japan agreed on March 29, 1988 to procedures that will permit American companies to bid for the first time on major Japanese construction projects. This will give U.S. firms an important foothold in Japan, which has announced a large-scale public works program.

-- On December 30, 1987 Ambassador Yeutter had determined that Japan discriminates against U.S. firms in procurement for public works projects. As a result, U.S. contractors cannot participate in certain U.S. projects that receive Federal funding.

Japan Agricultural Quotas

On July 15, 1986, the U.S. asked for a GATT investigation of illegal Japanese import quotas in 12 agricultural categories, including fruit juices and processed beef. The GATT found 10 of the 12 quotas illegal on February 2, 1988, with the other two quotas found to be too small. The U.S. is seeking expeditious removal of these quotas or fair compensation for quotas that are not lifted.

Taiwan Investment Restrictions

Taiwan agreed on September 12, 1986 to eliminate export performance requirements in the automotive sector. This occurred after the President instructed Ambassador Yeutter to initiate an investigation under section 307 against trade related investment restrictions by Taiwan, which had imposed export requirements on a Japanese auto plant investment there.

Brazil General Aviation Aircraft

Following several years of consultations, Brazil agreed in late 1985 to reduce import restrictions on general aviation aircraft by lowering tariffs from 50 to 20 percent, granting import licenses for aircraft under 7,000 kilograms within 30 days and making licensing procedures more transparent.

Japan Soda Ash

On November 25, 1987, at the urging of the U.S., Japan's Fair Trade Commission ordered Japanese soda ash producing

companies not to engage in any conduct that might impede fair competition. This should help U.S. soda ash producers, who are the most competitive in the world, to increase their share of the Japanese market.

Japan Fish

On March 20, 1987, Japan and the United States settled a GATT case involving Japanese quotas on herring and pollock products, which could eventually increase American sales of these products to Japan by some $300 million annually.

Korea Agriculture

Korea agreed on May 11, 1988 to liberalize import restraints on five agricultural products (including frozen potatoes and avocados) and to increase access for alfalfa products and orange juice.

Japan Rice

Ambassador Yeutter announced a strategy for dealing with Japanese restrictions on rice imports on October 23, 1986. Under this strategy, the U.S. will ask Japan to honor commitments made in Punta del Este, Uruguay to roll back GATT-illegal trade measures and to negotiate on all agricultural issues during the Uruguay Round negotiations.

China Tungsten

The U.S. and China signed a four-year orderly marketing arrangement on September 28, 1987 regulating trade in tungsten. This action was taken under section 406, which permits the President to provide relief when an industry is damaged by imports from a communist country.

Airbus

The GATT Aircraft Committee has held discussions on a U.S. request to clarify the meaning of provisions in the Aircraft Code. In addition, Ambassador Yeutter has met three times with representatives of the Airbus partner governments (most recently on March 18, 1988) to discuss European subsidies for Airbus aviation programs.

Preshipment Inspection

Ambassador Yeutter announced actions on October 20, 1986 that will address impediments to American exports caused by requirements of some countries that U.S. shipments be inspected by private companies before export. At the request of USTR, the International Trade Commission completed a study on the

effects of preshipment inspection practices on August 5, 1987. USTR is reviewing the report and will discuss the report with industry representatives.

Korean Intellectual Property

On June 13, 1988 Ambassador Yeutter established an Interagency Fact-Finding Task Force to investigate Korean trade practices relating to patent rights. This task force, operating under Section 305 of the Trade Act of 1974, will investigate claims by U.S. pharmeceutical companies that Korea fails to enforce patent rights. It will complete its preliminary report by December 1, 1988.

Shakes and Shingles

On May 22, 1986, the President granted import relief to the red cedar shakes and shingles industry under section 201 in the form of a declining tariff program.

II. NEGOTIATING TRADE AGREEMENTS

President Reagan is negotiating improved multilateral trading rules as well as bilateral agreements to open overseas markets for U.S. exporters and to shield import-sensitive industries from disruptive import surges.

MULTILATERAL NEGOTIATIONS

Uruguay Round

On September 20, 1986, in Punta del Este, Uruguay, trade ministers from 74 nations in the General Agreement on Tariffs and Trade (GATT) launched comprehensive multilateral trade negotiations under the GATT. The talks will strengthen the international trading system so that U.S. manufacturing, services and agricultural industries can better compete in international markets. The U.S. will seek a strengthening of GATT rules and dispute settlement procedures, as well as new rules covering trade in services, trade-related investment, intellectual property protection and dispute settlement.

-- The Uruguay Round negotiating structure was established in January 1987, consisting of individual negotiating groups for 15 subjects. Chairmen have been selected for these groups and the initial series of group meetings began in February 1987. The second stage of negotiations began on January 25, 1988.

-- For trade in agriculture, President Reagan announced America's proposal for Uruguay Round negotiations on

July 6, 1987. The U.S. proposal, which calls for a total phase-out of all policies that distort trade in agriculture by the year 2000, is the most ambitious proposal for world agricultural reform ever offered.

-- The U.S. tabled a framework proposal on intellectual property protection on October 28, 1987. The U.S. proposal addresses trade problems related to the counterfeiting and piracy of patents, copyrights and trademarks.

-- The U.S. tabled a proposal for trade in services on November 4, 1987. The U.S. proposal would establish the first set multilateral rules for trade in services, the largest sector of the U.S. economy.

Multifiber Arrangement

Textile exporting and importing nations agreed to a stronger and more comprehensive extension of the Multifiber Arrangement (MFA) on August 1, 1986. The new MFA extends product coverage to essentially all fibers and makes it easier to prevent import surges.

Harmonized System

On June 19, 1987 the Administration submitted to Congress legislation to replace the tariff schedule of the U.S. with a system based on international nomenclature. U.S. exporters will benefit from the efficiency that results when this new Harmonized System is implemented. The system will also provide a uniform yardstick with which to measure trade flows.

Government Procurement Code

GATT's Committee on Government Procurement completed the first phase of renegotiating the Government Procurement Code on November 21, 1986, strengthening the Code to bring the procurement practices of other signatories more into line with U.S. practices.

BILATERAL NEGOTIATIONS

Canada Free Trade Area

On January 2, 1988, President Reagan and Canadian Prime Minister Brian Mulroney signed an historic agreement to liberalize trade between our two nations. This agreement, when enacted by Congress and the Canadian Parliament, will strengthen both our economies and create jobs for American and Canadian workers.

-- All tariffs will be eliminated over 10 years, so that U.S. exports to Canada should increase by $2.6 billion per year. U.S. consumers will save $1.1 to $2.9 billion annually from the elimination of U.S. tariffs.

-- The U.S. will be assured secure access to Canada's energy resources -- invaluable if other foreign sources are jeopardized.

-- Binding rules will be established for $25 billion in trade in services, the first international services agreement of its kind.

-- Canada will phase out its duty remission programs for auto parts, which will remove an incentive for U.S. and Canadian motor vehicle manufacturers to use parts from third countries.

Mexico Framework Agreement

The United States and Mexico signed a framework agreement on November 6, 1987 that will improve trading relations between our two countries. The agreement provides for consultations on trade in textiles, steel, investment, technology transfer, intellectual property, electronics and services to determine if improvement to trade can be made in any of these sectors. The agreement also calls for prompt consultations in the event of a trade dispute.

Mexico Beer, Wine, and Distilled Spirits

Ambassador Yeutter announced on December 30, 1987 that Mexico has eliminated or significantly reduced its barriers to imports of beer, wine, distilled spirits, certain agricultural seeds and various other products. Under this agreement, Mexico eliminated its $1 million global quota on beer imports and its $43 million global quota on wine and certain distilled spirits. It also eliminated its import licensing requirements for a number of products.

Mexico GATT

On August 24, 1986 Mexico acceded to the GATT following the negotiation with the U.S. of terms of accession that will guarantee greater access to the Mexican market for U.S. exporters.

Soviet Grain

Negotiations for renewing the long-term agriculture agreement between the U.S. and U.S.S.R. were held in Washington on March 19, 1988 and in London on May 2-4, 1988. The current

agreement, which provides for annual Soviet purchases of nine million metric tons of wheat, corn, soybeans and soybean meal, expires on September 30, 1988.

Japan Supercomputers

On August 7, 1987 Ambassador Yeutter announced that Japan will implement regulations to make it easier for American supercomputer companies to bid for contracts awarded by the Japanese government. This should make it easier to sell supercomputers to the government of Japan. The related issue of pricing practices by Japanese supercomputer companies remains unresolved; consultations will continue on this issue.

Japan MOSS

Important progress was achieved in 1985 in the Market-Oriented Sector-Selective (MOSS) talks with Japan to open markets for U.S. products. A number of market-opening measures are to be implemented while talks will continue to open markets even further. These areas include telecommunications, medical equipment and pharmaceuticals, electronics, forest products and auto parts.

Japan NTT Agreement

On December 23, 1986 Japan agreed to a three-year renewal of the bilateral agreement on procurement of telecommunications equipment by the Nippon Telegraph and Telephone Company. Under this agreement, the government of Japan must provide nondiscriminatory treatment for U.S. products in procurement, enhancing the ability of U.S. suppliers to compete in a market that formerly was closed to foreign suppliers.

Japan Computer Parts

The U.S. and Japan agreed on November 22, 1985 to eliminate all tariffs on trade in computer parts and Japan agreed in addition to eliminate tariffs on computer peripherals and central processing units.

Japan Lawyers

On April 11, 1986, the U.S. and Japan announced an agreement permitting American lawyers to enter the legal services market in Japan for the first time. Japanese market-opening measures went into effect on April 1, 1987.

Machine Tools -- Japan and Taiwan

On December 16, 1986 President Reagan announced that Japan and Taiwan had voluntarily agreed to restrain machine tool

exports to the United States for five years. He also approved a domestic action plan that will facilitate the industry's revitalization. Since that time, 73 companies have agreed to participate in the National Center for Manufacturing Sciences. This program, which will last five years, was undertaken for national security purposes.

Korean Tariff Reductions

The Korean government announced on April 6, 1987 that it will reduce tariffs on 83 industrial and agricultural products by July 1, 1987, including paper products, computers, and beer.

Singapore Copyright

President Reagan established bilateral copyright relations between the U.S. and Singapore on May 19, 1987 after Singapore implemented a law providing additional protection for American authors, artists and software producers.

Taiwan Pears

Taiwan agreed to liberalize restrictions on imports of pears as of September 15, 1986.

Colombia Wine

Following representations by Ambassador Yeutter to the President of Colombia, that nation removed U.S. wines from its list of prohibited imports.

BITs

Since March 25, 1986, President Reagan has sent to the Senate for ratification 10 bilateral investment treaties (BITs) liberalizing investment policies between the U.S. and developing nations.

European Space Agency Meetings

The U.S. and the European Space Agency have held three meetings since July 1987 to discuss the feasibility of establishing rules in the area of commercial space launch services.

STEEL AGREEMENTS

Voluntary Restraint Arrangements (VRAs)

The U.S. has negotiated 20 voluntary restraint arrangements on steel products covering 19 countries and the European

Community (Spain and Portugal have separate agreements.) The most recent VRA, with Trinidad and Tobago, was signed in September, 1987. These agreements, expiring on September 30, 1989, are designed to combat foreign unfair trade practices such as subsidies, dumping, and quotas.

-- As a result of the VRA program, imports now take approximately 22 percent of the U.S. market, a significant decrease from the 1984 share (approximately 27 percent), when the President's steel program began.

Non-VRA Countries

Imports from some countries with which the U.S. has not concluded VRAs have surged in recent years. Among these countries are Taiwan, Canada and Turkey. Imports from these countries have declined recently. In late 1986 Taiwan instituted a unilateral restraint program on exports to the U.S. The U.S. and Canada recently agreed to a consultative mechanism in which consultations will be called when exports from Canada in a specific product group exceed historical levels. Further, export tonnages from Turkey are no longer on an increasing trend.

Specialty Steel

The U.S. concluded orderly marketing agreements on specialty steel with Japan, Canada, Poland, Spain, Sweden and Korea and unilaterally imposed quota allocations for Mexico and Taiwan on October 26, 1987. These agreements and allocations, which cover stainless steel bar, wire rod and alloy tool steel, will be in effect through September 30, 1989, when the President's steel program expires.

Mexico

The U.S. and Mexico formalized an agreement on steel on December 30, 1987 under which the U.S. granted Mexico a one-time increase for 1988 in the steel quota and added a new quota category covering wire mesh and wire fence panels. At the same time, Mexico reduced its tariffs and steel products from 38 to 20 percent and eliminated import licensing requirements for steel.

TEXTILE AGREEMENTS

Hong Kong

The U.S. and Hong Kong reached a comprehensive agreement on textile and apparel imports on June 30, 1986, limiting growth of Hong Kong textile and apparel imports to an average of one percent per year through 1991. This agreement

also extended coverage to virtually all fibers, including ramie, silk blends and linen.

Taiwan

On July 14, 1986 the U.S. and Taiwan reached a comprehensive agreement on textiles and apparel similar to the agreement reached with Hong Kong. Under this agreement, Taiwan's exports will grow by about one-half of one percent from 1985 through 1988. In addition, Taiwan agreed to reduce tariffs on more than 300 textile and apparel items by as much as 50 percent, providing additional market access for U.S. manufacturers. On April 23, 1987 the U.S. and Taiwan extended this agreement for another year so that it will now end on December 31, 1989.

Korea

On August 4, 1986 the U.S. and Korea reached a comprehensive agreement on textiles and apparel that will limit import growth to an average of 0.8 percent annually through 1989. In addition, Korea has agreed to phase out its import licensing system over three years, providing additional market access for U.S. manufacturers.

Japan

The U.S. and Japan reached a comprehensive agreement on textiles and apparel on November 13, 1986 that will limit import growth to an average of 0.8 percent annually through 1989. In addition, Japan agreed to establish a mechanism to prevent transshipments of textiles from third countries through Japan.

China

The U.S. and China reached a four-year agreement on textiles and apparel on December 19, 1987 that will limit imports to an average annual growth rate of 3.3 percent. Since China is the largest U.S. supplier of textiles and apparel, this agreement is a significant step in controlling import surges.

Mexico

The U.S. and Mexico reached a four-year agreement on textiles and apparel on December 31, 1987 that will permit an average annual growth rate of six percent on Mexico's textile and apparel quotas. In return, Mexico permitted additional access to its market for U.S. textile suppliers.

New MFA Fiber Products

The U.S. has used new authority under the Multifiber Arrangement (MFA) to establish quotas on such products as ramie, linen and silk-blends. In addition to the Hong Kong, Korea and Taiwan agreements, imports of these new MFA fiber products have been restrained from Malaysia, Romania, Mauritius, Burma, India, Pakistan, the Philippines, Sri Lanka, Indonesia, Jamaica, China and Macau.

GENERALIZED SYSTEM OF PREFERENCES (GSP)

GSP Graduation

On January 29, 1988, President Reagan announced he would "graduate" four economies -- Hong Kong, Korea, Singapore and Taiwan -- from the GSP program next year. This action was taken after the administration examined a broad range of economic criteria, including per-capita GNP, growth rates, and ability to export. This examination demonstrated that these four ecoromies are sufficiently developed that they no longer need duty-free treatment to export to the U.S. The President's decision, which will affect about $10 billion in trade, will become effective on January 2, 1989.

-- On April 29, 1988, Ambassador Yeutter announced that four other countries -- Bahrain, Bermuda, Brunei Darussalam, and Naura -- will be graduated from the GSP program on July 1, 1988 because their per-capita incomes exceed the statutory limit for GSP beneficiaries.

GSP General Review

On January 2, 1987 Ambassador Yeutter announced that President Reagan will reduce the level of duty-free GSP benefits available to advanced developing countries by an estimated $2 billion, or 23 percent. This decision concluded a two-year general review of the GSP program which encouraged improved protection of intellectual property rights and the elimination of foreign trade barriers to U.S. goods, services, and investment. The President also decided to terminate or suspend from the program Paraguay, Nicaragua and Romania for their failure to improve their worker rights practices. On December 24, 1987, the President suspended Chile from the program because of worker rights abuses.

GSP Ethanol

On April 1, 1986, the President determined that certain ethanol mixtures were being imported in circumvention of U.S. law and would no longer be eligible for duty-free treatment under the Generalized System of Preferences (GSP).

III. IMPROVING THE INTERNATIONAL ECONOMY

President Reagan has sought an unprecedented level of coordination of international economic policies among the leading developed countries to provide a more reasonable relationship between the dollar and other currencies to assist U.S. exporters and import-sensitive industries.

Plaza Agreement

Secretary Baker and representatives of four other industrialized nations agreed on September 22, 1985 to embark on a major effort to coordinate economic policies. The result has been a major realignment of currency exchange rates, which will begin to alter our trade imbalance soon and which has already made U.S. products and services far more competitive.

Tokyo Summit

The President achieved agreement at the Tokyo Economic Summit on May 6, 1986 on a package of reforms that should improve the international monetary system and provide a more stable international economic environment.

Venice Summit

The seven major industrialized nations agreed on June 10, 1987 to continue pursuing improvements in the international economic system. President Reagan also achieved a consensus to seek reforms of the world trade system in the Uruguay Round negotiations.

Deficit Reductions

Since the third quarter of 1986, the real trade deficit, as measured in non-inflated dollars has declined 20 percent. This means that the trade deficit, in volume terms, has dropped five straight quarters.

June 15, 1988

QUESTIONS SUBMITTED BY SENATOR MATSUNAGA

OMNIBUS TRADE LEGISLATION

QUESTION 1. Last year, I added an amendment during floor consideration of Omnibus trade legislation to provide additional funding for a Director for Chinese Affairs and a Deputy Director for Japanese Affairs. This specific language was unfortunately diluted during conference consideration of appropriations under the Continuing Resolution to eliminate the reference to these specific positions. Can you tell me how USTR has utilized the additional $100,000 that was appropriated to USTR under the Continuing Resolution?

ANSWER 1. The $100,000 has been used to augment our limited travel funds which were diminished somewhat by the decreasing amount of support from the State Department/International Organizations account. That account, which funds travel of USTR staff to official international conferences, e.g. the GATT, OECD, etc., has shrunk since FY 1985. The amount added in the continuing resolution allowed us to increase, for example, the travel budget for our Japan/China shop by almost 20 percent.

QUESTION 2. Can you tell me how these two positions on China and Japan are presently being staffed? If the positions are consistently being filled with details from other agencies, wouldn't it add more consistency, experience and long-term policy planning to your negotiating efforts with these countries if you had full-time personnel on board instead of having to borrow staffers every year from other agencies?

ANSWER 2. The Director for Chinese Affairs is currently a detailee from the State Department (a Foreign Service Officer with a solid background in Chinese affairs and fluency in Chinese); the Deputy Director for Japanese Affairs was filled most recently by a Commerce Department detailee. We believe that a mix of permanent staff at a more senior level and detailees at a more junior level give us an overall blend of talent, expertise, and continuity sufficient to get the job done. We believe it important to remain small in order to lead and coordinate the efforts of all the trade related agencies in the U.S. government. The staffing arrangement in the Office of Japan and China is typical of other bilateral units in USTR.

QUESTION 3. Ambassador Holmer, I believe that you are familiar with the omnibus trade legislation that was passed by the Congress and vetoed by the President. That legislation would require a substantial number of reports and new negotiating efforts by the Trade Representative's Office. For example, telecommunications trade negotiations would be mandated with a number of countries, the frequency of intellectual property rights negotiations would be increased, and more negotiations may result from the Super 301

provision. Do you believe that USTR would be able to handle these responsibilities under the budget request you have submitted for FY 1989? If not, what sort of resource requirements do you believe that USTR would require to carry out the tasks specified in the legislation?

ANSWER 3. As I stated in my formal testimony, we believe we do have the necessary resources to handle the responsibilities in the Omnibus Trade Bill. There are some additional reporting responsibilities which USTR would have to handle. We don't expect them to be burdensome in FY 1989. We would expect support from the rest of the trade community in the Federal government in providing the required reports and analyses.

US-CANADA FREE TRADE AGREEMENT

QUESTION 4. To complicate matters further, the US-Canada Free Trade Agreement, if approved by the Congress, will require another set of negotiations, sixteen by my count, in order to carry out the terms of the agreement. What demands on USTR staffing will occur if the FTA is approved, what USTR personnel will handle these negotiations and will you need additional personnel to handle these talks?

ANSWER 4. We estimate currently that as many as six staff years of work in FY 1989 will be needed in USTR to implement the CFTA-- assuming it becomes law. About two staff years will be required for dispute resolution issues, two for monitoring Canadian compliance with the CFTA, and two for negotiating new subsidies/dumping rules and satisfying Congressional reporting requirements. This work will involve a number of professional and support staff in the Canada shop, in the General Counsel's office and in other support areas. We will also continue to depend upon other trade-related agencies for support. Since we spent more than this time over the last year in developing the agreement, we expect to be able to manage the workload.

THE USTR REORGANIZATION

QUESTION 5. Ambassador Yeutter recently announced a reorganization of the USTR in order to give greater emphasis to services, intellectual property issues, investments and science and technology issues. Can you explain what changes have occurred in the reorganization, how these changes improve USTR's profile in these areas and what impact, if any, the changes have on USTR's budget requirements.

ANSWER 5. The newly-created unit will focus on services, investment, intellectual property and science and technology. The first three issue areas are key agenda items in the Uruguay Round of multilateral trade negotiations currently underway in Geneva. Science and technology issues clearly pose long-term trade challenges for this country, and require greater focus in USTR. The restructuring helps us to have a sharper management and staff focus on these issues.

The new unit will be headed by Bruce Wilson, an Assistant United States Trade Representative (AUSTR). Mr. Wilson currently is in charge of the AUSTR level unit covering Industry and Services. He has spent 16 years with USTR in a variety of staff and management assignments.

Another unit, headed by an AUSTR for Industry, will focus exclusively on manufacturing industry issues in the future. Don Phillips, an AUSTR who currently is in charge of the interagency trade policy coordination process, will become the new AUSTR for Industry. The unit will also manage the agency's program responsibilities under the GSP (Generalized System of Preferences) program for the United States. Mr. Phillips has over eight years in service to USTR. His most recent post was Assistant USTR for Trade Policy Coordination.

There is no significant budget impact resulting from these changes.

URUGUAY ROUND

QUESTION 6. Can you give us a progress report on the negotiations in the Uruguay Round. I know you have a mid-term Ministerial meeting scheduled for December in Montreal.

ANSWER 6. As I indicated in my testimony, we are well ahead of where we were at a similar stage in the Tokyo Round. More than 200 papers of various kinds have been submitted by the participants. In fact, we have been particularly impressed by the wide participation and seriousness with which the negotiations have been conducted. It is very clear that our trading partners, including developing and newly industrializing countries, realize the importance of improving and strengthening the rules for an open and fair trade system.

Trade and other ministers from the OECD countries agreed in Paris in May to seek agreements at Montreal on a "framework approach" in all negotiating areas to guide us during the final two years of the four-year timetable specified by the Punta Del Este Declaration. Between now and December, we expect to push forward in each of the negotiating groups -- which continue to meet each week in Geneva -- to achieve maximum progress in the areas of importance to us. We will also pursue a parallel informal process at the ministerial and subcabinet levels to prepare for the Montreal meeting. Several such meetings are currently contemplated, including one at the ministerial level in Islamabad, Pakistan, in early October.

If you would like a more detailed briefing, we would be happy to provide one.

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